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Operational Economics, Inc.
DATA ANALYSIS AND FORECASTING

STAT

802 West Alabama / Houston, Texas 77006

August 9, 1982

Executive Registry

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Mr. William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Casey:

OPCON has an operational world oil movements model. This model includes three distinct components:

- Data Management Generator
- Import Demand Forecasts
- Tanker Tonnage Simulator

The data management generator (DMG) takes quarterly oil movement data from all country sources to all country sinks and organizes it regionally into a 30 x 30 matrix of flows from major regional sources to major regional sinks. This DMG is designed to further aggregate the 30 x 30 flow matrix into a 9 x 9 flow matrix for refined structural economic analysis. It is designed to efficiently generate both types of flow matrices.

Import demand requirement forecasts are accurately made for the major regional importing sinks and systematically distributed to the major regional sources. The table is balanced and estimates are made for the most recent quarter, and forecasts are made for the next two quarters.

The tanker tonnage simulation model transforms the oil movement forecasts from 30 sources to 30 sinks into demand requirements for tanker tonnage. Estimates of these requirements for the most recent quarter are compared against available data, and forecasts of tanker tonnage requirements are made for the next two quarters.

OPCON's data base currently encompasses all relevant quarterly statistics from first quarter 1974 through fourth quarter 1981; first quarter 1982 will be added soon. Normally, a two-month lag exists in reporting. As estimated, the quarterly data gives 75% to 80% world-wide coverage. Corresponding annual data are used in conjunction with the quarterly data to fill in missing data points, resulting in virtually 100% coverage.

Structural estimates of the import demand functions for 9 regional importing sinks are being continually developed and refined.

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OPCON's World Oil Movements Model may be used to fulfill all of the following needs:

- Cost effective management and organization of world oil movement data.
- Timely estimates of oil movement flows from major sources to major sinks.
- Accurate forecasts for the next two quarters of oil movement flows from major sources to major sinks.
- Accurate forecasts for the next two quarters of tanker tonnage demand requirements from major sources to major sinks.

In addition, the World Oil Movements Model will provide a sound basis for inferring significant points and times of severe stress in the world movements of oil, which could lead to significant increases in oil prices and in tanker freight rates. Such stress points might occur, for example, if falling interest rates stimulate rapid economic recovery and if a supply shortfall anywhere in the Middle East sets off not only inventory replenishment but speculative inventory build-ups.

Because of the nature of your agency's responsibilities, the benefits to the U.S. Government of OPCON's capability far exceed its cost. We would welcome an opportunity to present this capability and its potential to you and your staff. (See enclosures for additional information with regard to the service and OPCON.)

I look forward to hearing from you.

Sincerely,

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RGT/nh
Enclosures